

Regulatory Briefing

**Summary of key regulatory actions,
initiatives and draft legislation
affecting audit, capital markets,
governance and tax**

**Implications for companies and
their auditors**


April 2016

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Introduction

Welcome to the April 2016 issue of the Regulatory Briefing.

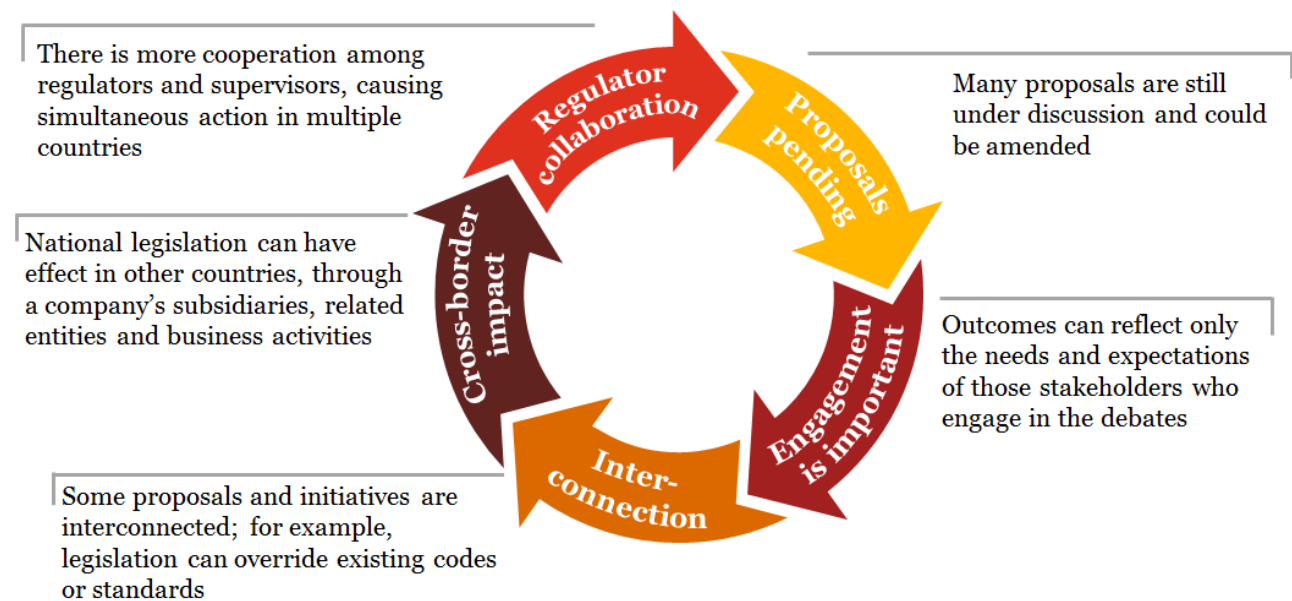
This outlines current developments affecting audit, financial reporting, capital markets, governance and tax. While a number of these initiatives have been on-going for some time, we also cover new developments which are emerging.

We made some structural changes to simplify and enhance the Briefing. The 'key developments' are these articles are marked with a .

We also merged all audit-related categories into the 'Audit' chapter.

Developments in each chapter 'Audit', 'Capital Markets', 'Governance' and 'Tax' are generally presented in alphabetical order based on the location of the initiative.

We recommend you consider the following as you are reading this Briefing:




Where developments could affect you, here are some things you can do:

- Respond directly to a consultation or proposal.
- Meet with or write to the sponsors or lead organisations for the various initiatives.
- Discuss proposals with other stakeholders.













Refer to the Additional Information section of this Briefing for how to register comments and/or participate in the debates.

To learn more:

- The Appendix summarises additional information available mainly around the EU Audit Legislation.
- You can revisit the previous issue of the Regulatory Briefing ([January 2016](#)) and where helpful we provide links to the previous articles.
- Further information is also available on the PwC website at: www.pwc.com/regulatory-debate and from your PwC relationship partner.

 Key developments
  New
  Adopted
  Update

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Audit

This section provides the latest developments in audit regulation affecting companies and their auditors.

Many stakeholders continue to seek more information about the interpretation and implementation of the EU Audit Legislation. This issue provides an update on the implementation, trends in the uptake of member state options, the impact on groups with Public Interest Entities (PIEs) in a variety of EU member states, and initiatives underway to communicate the understanding of the legislation to the affected stakeholders.

In addition we provide some news from the global standard setter IAASB, and we report on various national developments including in China, Nigeria, Russia and South Africa. We particularly want to point out the developments in Japan, where significant effort from all stakeholders will be needed to manage comprehensive recommendations to enhance confidence in accounting and auditing.

European Union

Update on the implementation of the EU Audit Legislation by member states

The [EU audit legislation](#) was adopted by the EU institutions in April 2014; its provisions will be applicable from the first financial year starting on or after 17 June 2016. Over time the legislation will also be implemented by Liechtenstein, Iceland and Norway (as members of the European Economic Area (EEA)).

For further detail on the core requirements of the EU Audit Legislation please refer to our [fact sheets](#).

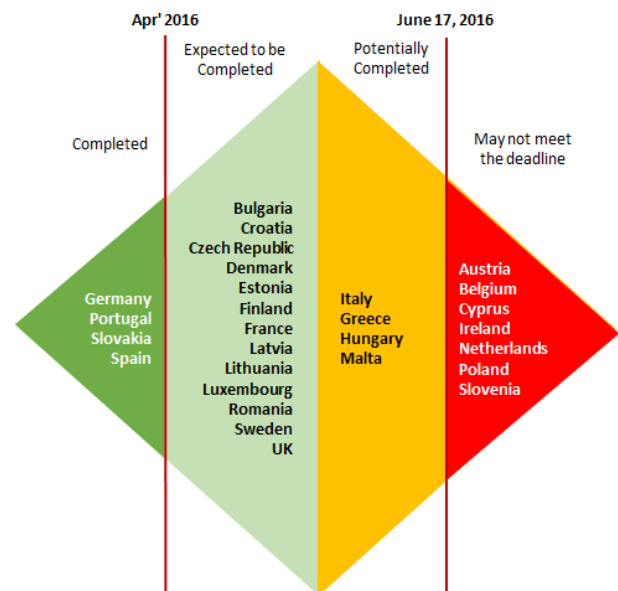
Current position

Member states are in the process of drafting national legislation, in order to:

- Transpose the provisions of the Directive into national law;
- Align national legislation and corporate governance codes with the provisions of the Regulation; and
- Implement (or not) the Member State options.

Status of the implementation

The following diagram shows the latest status of the transposition into national law by member state:



As illustrated, several member states may not complete their legislative processes to implement the legislation by the operative date of 17 June 2016. This brings additional uncertainty to those who need to implement the new regime.

The provisions of the legislation will apply from the first financial year starting after 16 June 2016, and for PIEs with a year-end which coincides with the calendar year, this means that a six month delay

would not impact an audit firm’s ability to provide certain services during this period. Beyond the six months, companies would need to comply with the basic requirements as outlined in the EU Regulation (i.e. without member state options) unless the relevant member state has put temporary arrangements in place to enable these options.

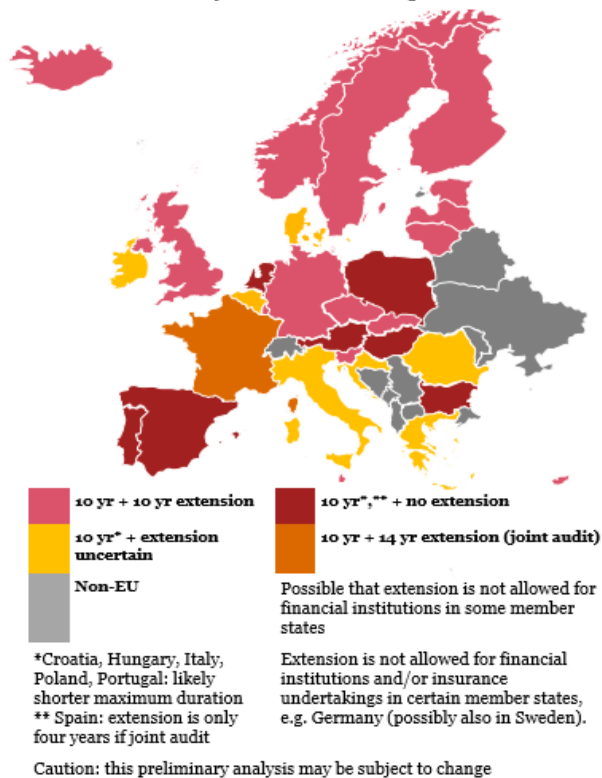
Legislative delays will be more difficult for PIEs with a financial year that differs from the calendar year (e.g. a 30 June year-end). In countries where there is no appetite for temporary measures to enable the member state options, compliance with the Regulation (without options) would be required from the start of the first financial after 16 June 2016 (in the above example this would be 1 July 2016).

Potential member state options

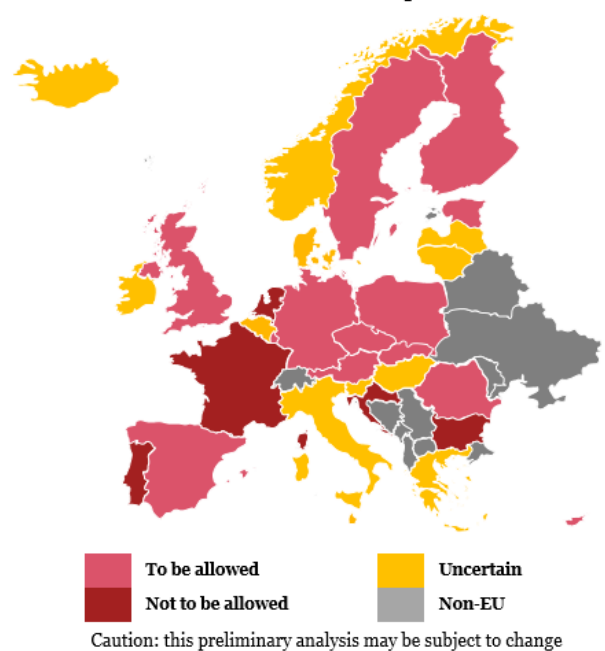
Member states are taking different decisions on audit firm tenure/rotation rules and the restrictions on whether audit firms can provide tax and other non-audit services (NAS).

Our understanding of the positions, which might be adopted by the Member States on key issues are illustrated below.

Potential outcome of Member State Options
Mandatory Firm Rotation (April 2016)



Potential outcome of Member State Options
Tax and valuation services (April 2016)



There are differing maximum duration periods across the EU (including 5, 7, 8, 9 and 10 years); there is more opposition to extending auditor tenure beyond 10 years than anticipated.

Some countries will differentiate application of the member state options based on type of PIE, e.g. allowing ‘industrial’ companies to take up the option to extend initial audit appointments for a further ten years, but not granting this to credit institutions or insurance undertakings (e.g. Germany, and Sweden).

The option to allow certain tax and valuation services is being taken up by a significant number of member states. Our impression is that most member states are looking at ways to retain their previous approach with regard to tax services, e.g. in France and the Netherlands, tax services were prohibited under the previous rules and will continue to be prohibited.

The wording in the draft implementing law of certain member states may need interpretation to provide these services in practice, for example:

- In the UK such services must have “no direct or have a clearly inconsequential effect [...] on the audited financial statements”;
- In Slovakia, one of the five tax permissible services (i.e. tax advice) will not be allowed; and
- In Germany, wording has been added to prohibit aggressive tax planning advice.



Key developments



New



Adopted

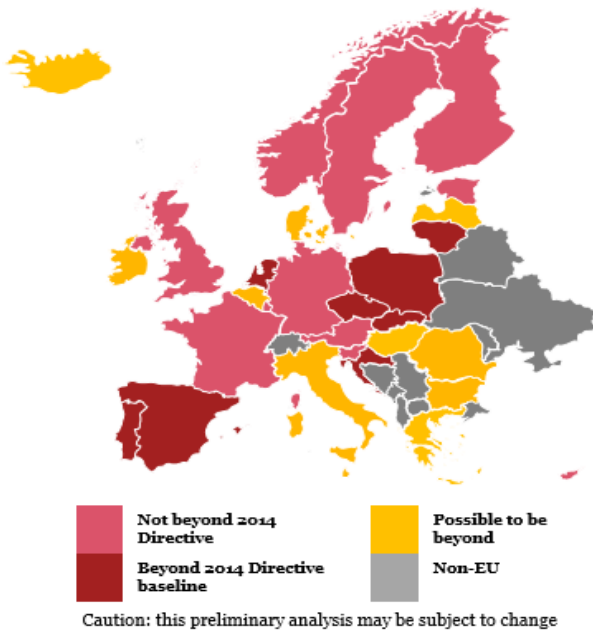


Update

There are differences in how some member states are interpreting/applying the NAS restrictions and member state options (including the cap).

According to the Regulation, the fee cap is to be calculated by the network firm in each EU member state, however the UK and Belgium may require global network audit fees to be included in the calculation. Member states can set a lower percentage (e.g. Portugal) or extend the cap to non-PIEs (which Belgium and Poland are considering). Poland intends to apply a second cap for tax and valuation services at 50%. The law allows a possible two-year extension of the cap in exceptional circumstances (but not in Spain, or in Germany where a maximum extension of one year will apply). Audit committees of large listed companies in some member states already restrict the volume of NAS provided by their auditor but in some smaller countries, the cap may have a significant impact.

Potential outcome of Member State Options
Public interest entity definition (April 2016)



Member states have the option to designate additional entities as a PIE which are of significant public relevance; many member states have significantly reduced the scope and thus the number of PIEs in their country (e.g. Spain, Slovakia), but about half of the member states intend to use the option to add entities such as state-owned companies or pension funds to the list.

We understand that a significant number of funds have de-listed or moved their listing to an unregulated market in order to avoid the application of the new requirements to their companies.

Impact on multinational groups

Multinational groups based outside the EU will be affected if there is a PIE in the group located in the EU, (for example, a subsidiary of a US domiciled bank). In this case the auditor of the subsidiary will need to be rotated in accordance with the law that applies in the member state where it is based.

The NAS restrictions of the EU law apply to EU PIEs, and also to their parent and controlled undertakings in the EU, even if the latter two are non-PIE entities (e.g. a non-listed automotive company which has a financing subsidiary in one of the member states will be subject to the NAS restrictions up and down the chain in the EU). The associated challenge is that each entity must follow the law of the member state in which it is incorporated (principle of local law).

There is no “not subject to audit” principle, so services to a parent entity in the EU are still prohibited even if audit firms only audit the subsidiary but not the parent.

Each EU PIE in the group will have to comply with the MFR rules applicable to the member state in which it is based. While there is no requirement for non-PIE entities in the group to rotate their audit firm, there may be an indirect impact if the group decides to rotate their auditor across the group.

Some groups may decide the simplest approach is to impose the shortest rotation period or strictest independence rules to the group. Alternatively, groups may appoint multiple audit firms to enable it to manage short tenure periods for the audits of some PIE subsidiaries e.g. in Hungary (where the draft law proposes rotation after 5 years).

Credit institutions and insurance undertakings will be most impacted, because their subsidiaries in the EU will automatically qualify as a PIE, and because certain member states will not allow the MFR extension to financial institutions.

In some territories, such as Denmark or Switzerland, where best practice guidance suggests the use of a single auditor by a group these considerations will be particularly important.

What can you do?

As most member states are still debating national legislation, we continue to encourage stakeholders to engage with respective governments and make their views known.

◇ **European Commission (EC) - Stakeholder meeting and further Questions and Answers published**

The EC facilitated a [stakeholder meeting](#) in March with representatives of member state Administrations, Regulators, companies, audit firms and other stakeholders to discuss the implementation of the EU Audit Legislation.

The overarching theme of the day was the impact on groups of the patchwork of member state options, but it is clear the EC will not pursue any amendments to legislation in the near term. It was suggested that the public and private sector should cooperate to make the legislation work. One of the audit regulators encouraged the regulatory community to take a measured and pragmatic approach to overseeing implementation in the first couple of years. The EC noted that 25 member states were yet to adopt their legislation, so there is still scope to avoid excessive use of options.

📄 **Questions and Answers published**

The EC published further "[questions and answers](#)" on the new EU rules on statutory audit to help smooth the path to implementation. This Q&A is a work in progress. Additional questions can be submitted to fisma-b4@ec.europa.eu.

📄 **European Contact Group (ECG) - Database on the implementation of member state options**

The ECG consists of the six largest global accounting firm networks in Europe. It is creating an implementation database to help companies understand the legislation, its interpretation and the approach adopted towards the options by each member state. The ECG also produces a 'Frequently Asked Questions' document on the audit legislation.

Next steps

We are working with the other members of the ECG to finalise the database. We expect that a link to the database will be available shortly.

China

📄 **Ministry of Finance (MoF) /China Institute of Certified Public Accountants (CICPA) - Latest developments in accounting and auditing standards (New regulation on mandatory auditor rotation and tendering announced; Government sector accounting rules and guidance under development)**

In March 2016, the MoF announced a new regulation changing the compulsory rotation period for some auditors of financial institutions as well as related tendering requirements.

Under the new regulations, the 5 year rotation period (3 year initial term plus 2 further years on the basis of a tender) introduced in 2010 will still apply to most audit firms, whereas financial institutions can now engage an auditor who ranked within the top 15 Certified Public Accountants firms in Mainland China for up to 8 consecutive years (5 years initial term and a 3 year extension – without the need for a tender but involving an internal process overseen by the audit committee). Additionally the compulsory tendering for all other audit firms is extended from 3 years to 5 years to align with the mandatory rotation period.

📄 **Government sector accounting rules and guidance are under development**

In November 2015, the MoF released the "Government Accounting Standards - Basic Standards" for government and related entities. This requires the government body and related entities to prepare financial statements on an "accrual basis" at a date yet to be agreed. The detailed accounting rules and guidance for the government sector are still under development.

PwC commentary

We support the accrual based accounting rules for the public sector and note that in many jurisdictions the accrual based International Public Sector Accounting Standards (IPSAS) are implemented to achieve this.



Key developments



New



Adopted



Update

Global

◇ International Auditing and Assurance Standards Board (IAASB) – Latest developments in global audit standard setting (Revision of ISA 540 on Auditing Accounting Estimates: Auditor reporting ISAs series, Invitation to Comment addressing professional scepticism, quality control and group audits)

The IAASB has released a [Project Update](#) setting out its plans to revise ISA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.

The first part of the update provides an overview of the project and the reasons driving this.

The second part is an analysis of the anticipated audit issues associated with implementation of the expected credit loss model under IFRS9. This section sets out those issues, highlights key considerations for auditors (who are likely already involved in discussions over how their client is planning for IFRS9 implementation), and provides a high level indication of how these issues might be addressed in the revision of ISA 540.

PwC commentary

Although not authoritative, the issues addressed are of particular interest to regulatory and other oversight bodies, and are intended to help auditors to be ready as companies prepare to implement IFRS 9.

◇ Auditor reporting ISAs series

The Board finalised the revision to ISA 810: Engagements to Report on Summary Financial Statements, which is effective for periods ending on or after 15 December 2016. This is the final standard to be revised and marks the completion of the standard setting phase of the IAASB's overall auditor reporting project. Ongoing activities will continue in relation to implementation monitoring of the new standards, specifically ISA 700 (Revised) and ISA 701.

◇ Invitation to Comment addressing professional scepticism, quality control and group audits

In March 2016, the IAASB held a stakeholder roundtable to hear views on its Invitation to Comment (ITC) on “Enhancing Audit Quality in the Public Interest – A focus on professional scepticism, quality control and group audits”.

The IAASB will be holding further roundtables in April in Malaysia and later in the US. A number of national auditing standard setters and IFAC member bodies are holding similar events. These activities are aimed at ensuring stakeholders have a chance to share their views.

The IAASB's webpage, [A Focus on Audit Quality](#), has been updated and includes templates that may make it easier for stakeholders to respond to the Audit Quality ITC or Overview. Guides to the ITC for specific stakeholder groups are expected soon.

Next steps

The deadlines for comment are both May 16, 2016.

PwC commentary

We are in the process of forming our views, but we consider the time is right for the IAASB to revisit its group audit and quality control standards, to ensure they remain fit for purpose, and to reflect on how standards best support the application of appropriate professional scepticism.

Our view that it is particularly important to audit quality that standards are adaptable to the circumstances of particular audit engagements. Principles-based standards are better able to be “future-proofed” by avoiding undue prescription that may inhibit innovation.

Overarching themes in the PwC network's response are likely to reflect that audit quality will best be supported if the resulting changes focus on:

- The roles and responsibilities that support audit quality, without imposing an unduly rigid structure of the specific individuals that must fulfil those responsibilities;
- How audit evidence can be shared effectively, when appropriate, in a complex engagement structure; and
- What evidence is necessary to support justifiable reliance on common policies, processes and methodology within a network that are designed to support audit quality.

Japan

 **Financial Services Agency (FSA)**
- Advisory Council on the Systems of Accounting and Auditing ('Council') issues proposals for change 

In March, the Advisory Council produced a document entitled "For Ensuring Credibility of Accounting and Auditing" based on Council recommendations, in which it set out five objectives and [associated measures](#) to achieve these:

- Reinforcing management of audit firms (e.g. by an audit firm governance code and the disclosure of the compliance status of the audit firm with this code);
- Enhancing provision of information regarding audit to shareholders and others (e.g. by increased transparency of auditor reporting and the establishment of Audit Quality Indicators);
- Strengthening ability to detect corporate fraud (e.g. by increasing individual and organisational professional scepticism);
- Assessing audit quality from viewpoints of third parties (e.g. by enhancement of governmental oversight and self-regulation by the Japanese Institute of Certified Public Accountants [JICPA]); and
- Improving environment for high-quality audit (e.g. by strengthening corporate governance of companies regarding the statutory audit and utilisation of IT in the audit).


Next steps

The FSA and the Committee are now undertaking further research and analysis to determine the most effective measures and other changes, how these might be implemented, and when. It is expected that this process will take until the end of 2016.

PwC commentary

We welcome the constructive discussions in Japan. We are proactively working with the FSA and other stakeholders (e.g. JICPA) to further develop these new proposals and will actively contribute to a successful implementation going forward.

Nigeria

 **Securities and Exchange Commission Nigeria (SECN)** - New auditing standards coming for public firms

The audit requirements and processes for public limited liability companies may change in Nigeria. The SECN (capital market regulator) is considering new guidelines that will require external auditors to issue an affirmative statement on the adequacy and effectiveness of the internal control system of the company being audited. This aims to strengthen the corporate governance of such companies.

In addition to the current rule that stipulates change of external auditing firm after tenure of 10 years, companies shall now require external auditing firms to rotate audit partners assigned to undertake the external audit of the company from time to time to avoid familiarity.

Russia

 **Eurasian Economic Commission (EEC)** - New audit regulatory requirements expected


The EEC plans to introduce new audit regulatory requirements. The EEC is the permanent regulatory body of the Eurasian Economic Union (EEU), established in February 2012.

The members of the EEU are the Republics of Armenia, Belarus, Kazakhstan, and Kyrgyzstan; and the Russian Federation.

By a unified system of audit standards, audit quality requirements and control over audit firms the EEC plans to achieve equal trust and reliance on audit reports issued in any member country.

PwC commentary

We believe reforms aimed at improving audit quality across the EEU will support investors in their decision making and improve the investment climate in the EEU. However with no details regarding the content and timing there is uncertainty regarding the outcomes.

 Key developments

 New

 Adopted

 Update

 **Ministry of Finance (MoF) - Target date for ISA implementation is 1 January 2017**

ISA implementation in Russia is targeted for January 1, 2017 by MoF. The implementation will have significant impact on the statutory audit and reporting.

PwC commentary

In principle we support the reform and believe that it will improve audit quality. However, we have some concerns that the implementation period is short. There is a risk that not all audit firms will be able to amend their approach, and audit documentation standards to the level required for ISA compliance, within the timeframe.

South Africa

 **Independent Regulatory Board for Auditors (IRBA) - New requirement of audit tenure disclosure in audit report**


In December 2015 IRBA, published a rule change to the Auditing Profession Act, 2005. The new rule mandates all auditors' reports on Annual Financial Statements of all public interest entities should disclose the number of years that the audit firm or sole practitioner has been the auditor of the entity (audit tenure). This rule applies to audit reports issued for periods ending on or after 31 December 2015.

 **Johannesburg Stock Exchange (JSE) - New registration requirements for foreign audit firms**


Since 2009, foreign audit firms (i.e. external to South Africa) have been required to be registered with the JSE in South Africa, if they audit an entity that has a primary equity listing on the JSE (incorporated in their jurisdiction).

Starting in 2016 the registration requirement also applies to auditors of entities that have issued debt securities listed on the JSE. All applicant issuers with a financial year-end on or after 31 March 2016 must have an appointed JSE accredited auditor.

USA

 **Center for Audit Quality (CAQ) - Roundtable discussions with audit committee members on Audit Quality Indicators (AQI)**

The CAQ released a [report](#) on its global roundtable discussions on AQIs. In USA, UK and Singapore, audit committee members discussed effective assessment of audit quality. Participants concluded that AQIs can help them oversee the quality of audits.

 **Public Company Accounting Oversight Board (PCAOB) – New standards on use of the work of other auditors and on auditor reporting**

The PCAOB expects to shortly propose a new standard on the lead auditor's procedures for using the work of other auditors. These procedures will be particularly important in achieving consistent quality in large, multinational audits in which significant parts of the audit are conducted by firms other than the signing firm.

The PCAOB also expects to issue their re-proposal on the auditor's reporting model in the next few months. With the IAASB's new standard on auditor's reports coming into effect at the end of 2016, and the new EU auditor reporting requirements, many are keen to see whether the PCAOB will adopt a similar approach to the IAASB.

The Board is also working through the comments received on their projects on the auditor's use of specialists and on auditing accounting estimates and fair value measurements.

Currently the PCAOB is also exploring how to make the standard-setting process more efficient (e.g. looking at earlier and more frequent engagement with Board members and the SEC staff, to obtain support for key decisions). They are also exploring ways to get additional insights from auditors, who are directly affected by the standards.

Capital Markets

You can find below latest updates on regulatory developments affecting capital markets in a broad sense. We identify initiatives being implemented or under consideration in various countries to enhance requirements, especially for listed entities.

Some of these initiatives are still ongoing, for example, in the EU, as a reaction to the financial crisis, and there are also new matters to note, including for example:

- A registration based listing process for issuers in China; and
- Globally IOSCO emphasised in several meetings their engagement in technological change (e.g. block chain, cloud technology and fintech) for capital markets and reiterated the importance of corporate governance in emerging markets to ensure robust capital markets and building confidence for investors around the world.

China

✓ **Ministry of Finance (MoF)/China Institute of Certified Public Accountants (CICPA) – ‘Registration based’ listing process approved**

In December 2015, the central government approved plans to move from a government approval approach to a "registration based" listing process in China. The expected changes chiefly include increased information disclosure from the issuer and more responsibility to be taken by the intermediary agencies (especially bankers).

Next steps

The "registration based" IPO system is expected to be implemented phase by phase, but no detailed time plan has been announced.

European Union

◇ **European Commission (EC) - Latest Developments on EU capital markets regulation (Capital Markets Union, European Deposit Insurance Scheme, Shareholder's Rights Directive and Corporate Governance Statement, Consultation on the EU regulatory framework for financial services)**

In 2015, the EC published its [Capital Markets Union \(CMU\) Action Plan](#) setting out the actions that will be taken to put the CMU in place by 2019.

In December 2015, the EC also released a [Green Paper](#) on retail financial services. This sought views on how to improve choice, transparency and competition in retail financial services to the benefit of European consumers and how to facilitate true cross-border supply of these services. It also discussed the impact of digitisation on retail financial services with a view to promote innovative solutions in this area in the EU.

The deadline for responses was 18 March 2016. Although responses are not published yet, European Commissioner Hill said that they are clear: digital transformation of financial services has accelerated and regulators need to understand better the opportunities technology can offer, and to make sure that any rule making is proportionate.

Next steps

The EU Council of Ministers has already established its position on the proposals for the Securitisation Regulation and the revisions to the prudential calibration for banks in the Capital Requirements Regulation. The European Parliament (EP) Committee is in the process of drafting its report. The negotiations with the EP on the final version of the legislation will begin as soon as the EP committee has adopted its report, which is not expected before the end of 2016. The Committee members have indicated their preference for the Securitisation and European Deposit Insurance Scheme (EDIS) for bank deposits proposals to run in parallel.

PwC commentary

We continue to support the ambitions of the EC to develop CMU and the overall goals which underpin it. In our view there is still substantive work to be done to address barriers to the successful integration of capital markets within the EU. In particular, to achieve successful integration, we believe action by the EC is needed to:

- Provide a fuller understanding of how the capital markets function, the blockages to integration, and how these will be addressed;
- Identify the measures that will improve cross-border distribution of capital, expand choice and lead to higher growth;
- Identify the actions that will minimise the asymmetry of information between investors and borrowers across the EU to promote investment;
- Identify the safeguards to be put in place to minimise unintentional negative impacts, for example, those which could undermine the crucial role of banks in providing finance; and
- Promote diversified and alternative sources of financing to reduce dependency on banking loans.

Please also see the [previous issue of the Regulatory Briefing](#) for further information on the CMU.

◇ European Deposit Insurance Scheme (EDIS)

[Proposals](#) for a euro-area wide EDIS for bank deposits have been released. Please also see the [previous issue of the Regulatory Briefing](#) for further information on EDIS.

Current position

The proposal has been transferred to the EP and the Council. When they establish their position, negotiations could start to reach a final text.

◇ Shareholder’s Rights Directive and Corporate Governance Statement

To improve corporate governance within the EU, in 2014 the EC put forward [proposals](#) to revise the shareholders’ rights directive.

Current position

Trilogue negotiations between the EP, the Council and the EC are on hold. The negotiators are awaiting the publication by the EC of its proposals on public Country-by-Country Reporting (CBCR), due in April 2016, before continuing their discussions.

◇ Consultation on the EU regulatory framework for financial services

Last September, the EC launched a call for evidence on the EU regulatory framework for financial services. The EC was looking for views on unnecessary regulatory burdens, inconsistencies and gaps, rules giving rise to unintended consequences and rules affecting the ability of the economy to finance itself and growth. The EC received over 300 responses.

European Commissioner Hill [commented](#) that respondents raised concerns about:

- Rules getting in the way of the diversity of the EU financial sector;
- Compliance burdens linked to the duplication of reporting requirements; and
- Unintended consequences such as the impact of the rules on lending and market liquidity.

Guidelines on non-financial information reporting

The EC is [consulting](#) on upcoming non-binding guidelines on how large PIEs, such as listed companies and banks, could disclose social and environmental information. The current consultation includes asking what the underpinning principles of such guidelines should be. The EC intends to release the guidelines in December 2016.

The guidelines are intended to assist companies in the reporting process, providing them with a methodology to facilitate the disclosure of relevant, useful and comparable non-financial information.

They will be drawn up in line with the requirements and scope set out in the [Directive on disclosure of non-financial and diversity information by certain large companies and groups](#), which applies to large PIEs with more than 500 employees.

Next steps

The consultation is open until 15 April 2016.

European Securities and Markets Authority (ESMA) - Delays in the go-live date of certain Markets in Financial Instruments Directive (MiFID) provisions

Following the ESMA's advice, the EC proposed to delay the application date for MiFID II by one year. This takes account of exceptional technical implementation challenges faced by regulators and market participants. The delay is "strictly limited" to allowing technical work to be finished.

Last October, ESMA gave time for setting up data-collection systems. Under the MiFID II regime, ESMA has to collect data from about 300 trading venues on almost 15 million financial instruments. The delay would only impact banks and regulators; the [new deadline](#) for implementation is 3 July, 2018.

Current position

The proposals have been transmitted to the Council and the EP.

Global

International Organisation of Securities Commissions (IOSCO) - Discussions on challenges facing global securities markets and summary of annual meeting of Global Emerging Market regulators

In February the IOSCO Board [discussed](#) challenges facing global securities markets and its role as an advocate for the collective interest of its members by responding to emerging risks and assisting members in developing and enforcing laws.

The Board agreed to undertake further research on financial technology subsectors with particular relevance for securities regulators, including block chain, and to consider further work on the use and regulation of automated advice tools in securities markets and understanding the risks arising from the use of cloud technology. It also discussed a report on its work addressing the challenges of cyber risk; and heard updates on the work of the Growth and Emerging Markets Committee on digitisation and financial technology (fintech).

Summary of annual meeting of Global Emerging Market regulators

In early 2016 IOSCO released a [summary](#) of the Annual Meeting of its Global Emerging Market (GEM) committee consisting of regulators from such countries. The meeting focused on further work on strengthening systemic resilience and remaining alert to market risks.

The Regulatory priorities included:

- Digitalisation and the regulatory impact of FinTech on regulation, supervision, market surveillance; and
- Strengthening corporate governance and conduct in markets, noting the importance of high standards of corporate governance in ensuring robust capital markets and building international investor confidence.

Governance

Recent developments in governance, including those described below, demonstrate its importance in developing and emerging markets. More countries are being externally prompted to act, e.g. by the G20/OECD Principles of Corporate Governance.

Measures being considered, highlight key trends which are emerging, include:

- Bringing national codes more in line with international standards (for example in Nigeria, Jamaica and South Africa);
- Strengthening governance, including appointment of and roles of independent directors and enhanced disclosure (for example in India, Jamaica, Kenya, Singapore and the Ukraine), increased accountability, and monitoring compliance with requirements (for example in the UK); and
- More direct interventions, including mandatory audit firm rotation, restrictions on non-audit services, and measures to curb corruption (for example in Nigeria, Kenya and South Africa and anti-bribery initiatives by the OECD).

The range and scope of these measures, and their geographic coverage, show that legislators and regulators around the world are prepared to introduce new legislation, codes and guidance, and enforcement measures and sanctions to improve corporate governance – all of which could impact the way companies govern themselves and/or oversee their auditor.

European Union

 **Federation of European Accountants (FEE) - The Future of Corporate Reporting - creating the dynamics for change**

To stimulate debate on the future of corporate reporting FEE put forward ideas for [corporate reporting](#) 'to evolve to keep pace with the developing economic reality and address wider stakeholder needs'. FEE proposes a new approach under which a company would produce an executive summary of its corporate affairs, supported by more detailed information. The content would depend on the company's assessment of its stakeholders' information needs.

Next steps

FEE would like comments by 30 June 2016.

Global

 **Organization for Economic Co-operation and Development (OECD) - Ministerial meeting on the Anti-Bribery Convention**

In March, the OECD hosted a [ministerial meeting](#) on the Anti-Bribery Convention. The Convention establishes standards to criminalise bribery of foreign public officials and provides for measures to make this effective. Ministers from all 41 state parties to the Convention along with other representatives focused on three key points:

- Whistle-blower protection and facilitating voluntary disclosures;
- International co-operation; and
- Anti-corruption compliance

The OECD also launched a new report, "[Committing to Effective Whistle-blower Protection](#)". The report includes recommendations to strengthen whistle-blower protection in the public and private sectors.

India

Bombay Stock Exchange (BSE) - Introduction of Corporate Governance Scorecard

The BSE and the International Finance Corporation (IFC), part of the World Bank Group, jointly produced the Corporate Governance Scorecard to help Indian companies assess their performance against national and international-benchmarked practices. The IFC described the scorecard as a “first of its kind initiative” designed to aid board processes and decision making leading to more efficient capital markets.

Next steps

The [scorecard](#) will be implemented throughout the country during 2016.

Companies Law Committee (CLC) and Companies – (Amendment) Bill 2016 introduced in Parliament to address implementation issues on the 2013 Companies Act

The Ministry of Corporate Affairs (MCA) set up the CLC to address the implementation issues of the 2013 Companies Act (effective from April 1, 2014).

In February, the CLC submitted its [report and recommendations](#) on the issues arising from implementation of the Companies Act, 2013. The report recommends changes to the Act and regulations to achieve objectives such as reducing compliance costs and encouraging board service. The report includes recommendations on:

- Role of independent directors;
- Disclosure of interests;
- Management pay; and
- Composition and responsibilities of nomination, remuneration and audit committees.

These suggestions then formed the basis of the Companies (Amendment) Bill, 2016, which has since been introduced in the parliament for enactment. The bill proposes over 87 amendments. Currently, 284 provisions (sections) of the Companies Act 2013 out of 470 have been implemented. Most of the remaining provisions deal with National Company Law Tribunal and

National Financial Reporting Authority, which are in the process of being set up. The proposed amendments are broadly aimed at:

- Addressing difficulties in implementation owing to the stringency of compliance requirements;
- Facilitating ease of doing business in order to promote growth with employment, encouraging start-ups;
- Harmonization with accounting standards, the Securities and Exchange Board of India Act, 1992, and the Reserve Bank of India Act, 1934 as well as regulations made under these Acts;
- Rectifying omissions and inconsistencies in the Act; and
- Carrying out amendments in the provisions relating to qualifications and selection of members of the National Company Law Tribunal and the National Company Law Appellate Tribunal in accordance with the directions of the Supreme Court.

The proposed amendments do not include any changes in the requirements of Mandatory Firm Rotation and Internal Control Financial Review.

Jamaica

Private Sector Organisation of Jamaica (PSOJ) - Launch of updated corporate governance code for micro, small and medium enterprises

In February, the PSOJ introduced a corporate governance code for micro, small and medium enterprises (MSMEs) – a first in Jamaica and the Caribbean. The objectives of the code are to:

- Provide guidelines for MSMEs that are consistent with international best practices;
- Enhance MSME business governance systems;
- Strengthen transparency, accountability and efficiency in MSMEs; and
- Enhance investment opportunities.

The [code](#) was endorsed by the Jamaican Minister of Investment, Industry and Commerce.



Key developments



New



Adopted



Update

Kenya

✓ **Capital Markets Authority (CMA) - Enactment of new corporate governance code to support Capital Market Master Plan**

The new “Code of Corporate Governance Practices for Issuers of Securities to the Public 2016” is the latest phase of the CMA’s efforts to strengthen Kenya’s corporate governance culture. Companies have one year to comply with the new code.

Departing from the “comply or explain” approach in the previous 2002 code the [new code](#) is based on a flexible “apply or explain” principle, which recognises that no single set of rules can be applicable to all types of companies. The code recommends that boards rotate independent auditors every six to nine years.

The Capital Market Master Plan is a ten-year blueprint designed to strengthen corporate governance, financial reporting and anti-money laundering measures in Kenya.

Nigeria

◇ **Nigeria Securities and Exchange Commission (SECN) - Proposed changes to Code of Corporate Governance**

The SECN proposed significant [revisions](#) to its Code of Corporate Governance to secure better alignment with the Financial Reporting Council of Nigeria (FRCN) Code. Proposed revisions include:

- A new 10-year mandatory audit firm rotation requirement with a 7-year “cooling off” period (The current SECN code only recommends rotation);
- Corporate and personal liabilities on companies and directors in the event of corporate governance failures;
- Majority non-executive membership for audit committees; and
- Call for increased engagement with large shareholders.

Regarding the proposed changes for external auditors please see the article on [Nigeria](#) in the ‘Audit’ section of this Briefing.

PwC commentary

The existence of competing corporate governance language creates uncertainty and greater compliance costs for market participants. This lack of clarity also causes difficulties in measuring and enforcing compliance. We support actions of regulatory authorities, such as the SECN and FRCN, to harmonise language or establish new common procedures to best support market stability and growth.

Singapore

✓ **Monetary Authority of Singapore (MAS) - Proposed legislation seeks to enhance corporate governance of banks**

The Singaporean Parliament is considering the Singapore Banking (Amendment) Bill 2016, which includes amendments sought by the MAS to enhance banks’ corporate governance. The amendments would permit the MAS to direct banks to remove an external auditor for unsatisfactory discharge of statutory duties. The [bill](#) also includes a safe harbour for banks’ external auditors for good faith disclosure of information to the MAS.

South Africa

◇ **Institute of Directors in Southern Africa (IoDSA)** - Latest King Report, King IV, available for public comment 

The IoDSA and the King Committee published King IV for public comment in March. The new report includes developments on:

- Increased focus on executive pay;
- Key role of social and ethics committees;
- Regulations resulting from King III; and
- Continue development of integrated reporting

[King IV](#) employs a “comply apply and explain” principle, a departure from “comply apply or explain” under King III to help organisations move beyond a compliance mind-set to describing how implemented practices advance progress towards giving effect to each principle. Further, King IV recommends the disclosure of audit tenure as introduced by the Independent Regulatory Board for Auditors (IRBA) and the disclosure of significant audit matters in the auditor report.

PwC commentary

Developments in South Africa are often seen as a ‘benchmark’ by regulators in other parts of Africa and so could have ‘knock-on’ impacts in other countries across the African continent. We are watching the developments very closely to understand what these potential wider impacts might be and will proactively contribute to the ongoing discussion.

United Kingdom

 **Financial Reporting Council (FRC)** - FRC publishes “Developments in Corporate Governance and Stewardship 2015”

The FRC published its annual report on corporate governance in the UK, giving high marks but noting improvements are needed. Overall levels of compliance with the UK Corporate Governance Code remained high within the FTSE 350. Further, an increase in quality explanations is linked to a “more thoughtful approach to governance.” The FRC did note disappointment in companies’ lack of reference to boardroom diversity beyond gender. Further, the [assessment](#) noted inconsistent quality of reporting against the Stewardship Code’s principles.

Tax

This chapter focusses on multinational tax developments affecting companies that operate in various countries and covers in the current issue regional developments in the EU and global developments initiated by the OECD.

EU bodies are discussing an anti-tax avoidance package for implementation in the member states that includes country-by-country-reporting. There is also an update on the ongoing discussion of the European Parliament's TAXE II committee.

The OECD is in the midst of the second stage of its "Action Plan on Base Erosion and Profit Shifting" (BEPS), which involves implementation and monitoring of the recommended approaches agreed by the approximately 60 countries directly involved to date. However, the OECD is now exploring ways to get other countries to adopt the same approaches.

In considering these developments, it is important that governments, and businesses, take on board the need to create more public awareness and understanding of tax. In doing this businesses should be encouraged to provide more information, not just figures, within their financial statements about their tax strategies and to tell the wider story. We would like to see people continuing engagement in debating tax transparency in its various forms.

European Union

European Commission (EC) - Anti-Tax Avoidance Package (ATAP)

As expected, the EC issued its ATAP early in 2016. It is a key element of the 2015 Tax Transparency Package, and the resulting Action Plan on Corporate Taxation 'to make corporate taxation fairer and more efficient within the Single Market'.

Current position

The ATAP comprises of seven parts:

- A proposed Anti-Tax Avoidance Directive ('draft ATA Directive');
- An EC Recommendation on the implementation of G20/OECD BEPS recommendations on tax treaty abuse and on permanent establishments (PEs);
- A proposed amendment to Directive 2011/16/EU on mandatory automatic exchange of information (AEOI) for coordinated implementation of G20/OECD BEPS country-by-country reporting (CBCR) requirements;

- A general policy Communication on the ATAP and proposed way forward;
- A general policy Communication on an EU external strategy for effective taxation;
- An EC Staff Working Document; and
- A Study on Aggressive Tax Planning.

Next steps

The Council Presidency aims to reach EU-28 political agreement on the ATA Directive in the May 2016 Economic and Financial Affairs Council (ECOFIN) meeting.

PwC commentary

We support reducing compliance burdens and removing tax obstacles to the cross-border business activity that is essential to economic growth. Some compromises on the proposals seem inevitable. Please see our [paper](#) on the ATAP for further information.

◇ European Parliament (EP) - TAXE II committee

The TAXE II Committee is half way through its investigations into tax rulings etc. Please see the [January 2016 Regulatory Briefing](#) for information on TAXE I and the establishment of TAXE II.

The Committee has focussed on gaining greater understanding of the position adopted in certain countries and by companies through a series of meetings and visits. This includes discussions with:

- Countries some of its members consider to be operating as tax havens (including Cyprus, Guernsey, Jersey, Andorra, Liechtenstein and Monaco);
- Companies the Committee challenge over the use of aggressive tax arrangements, including IKEA, Google, Apple and McDonalds; and
- Large financial institutions within the Euro Zone, including Crédit Agricole, Deutsche Bank, ING Group, Nordea, Royal Bank of Scotland Santander, UBS and Unicredit.

Global

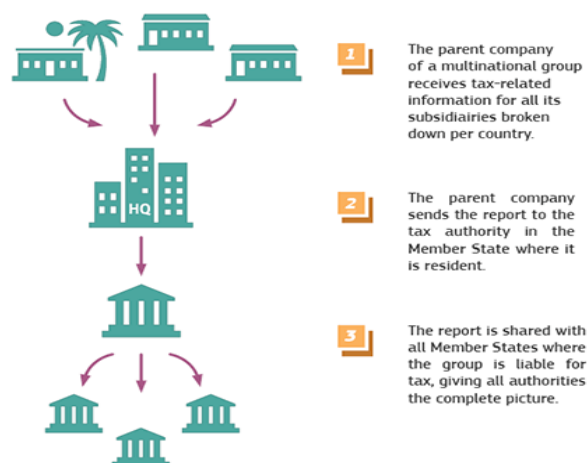
◇ Organisation for Economic Cooperation and Development (OECD) - countries encouraged to implement international tax rule changes (including country-by-country reporting) 🔑

Part of the second stage of the OECD's "[Action Plan on Base Erosion and Profit Shifting](#)" (BEPS) involves implementation and monitoring of the recommended approaches agreed by the approximately 60 countries directly involved.

The OECD and G20 are also exploring ways to get other countries to adopt the same approaches.

Current position

Countries have started to implement some of the BEPS recommendations, including discussions on an EU-wide approach (see above). Most common has been the adoption of country-by-country reporting (CBCR) to tax authorities for accounting periods beginning in 2016. The main principles in the EU's application of these rules (via revision of the Directive on Administrative Cooperation in the Field of Taxation (as further explained above) are:



Over 30 countries have also signed the OECD's Multilateral Competent Authority Agreement (MCAA) for the automatic exchange of these CBCRs with other relevant countries from 2017/2018.

Next steps

The OECD agreed in January 2016 a new framework for the potential inclusion in the remainder of the BEPS project of any countries not previously involved. This new framework (also known as the



Key developments



New



Adopted



Update

BEPS Implementation Forum) provides for all interested countries and jurisdictions to participate as BEPS Associates. The participant must commit to implementing the BEPS package of minimum standards and pay an annual fee based on its economic circumstances.

PwC commentary

There remain concerns over potential lack of consistency on implementation, as noted in the [January 2016 issue of the Regulatory Briefing](#).

The implementation of CBCR from 2016 is complicated by the US, in particular, which will not have the provisions in place until part way through 2016. A so-called 'secondary mechanism', if applied in another country (for example, as in the UK), would enable that country to require a subsidiary to file a CBCR there in some circumstances (in particular if the country of the parent does not require the parent to do so). The US government is trying to find ways to mitigate the position for US-parented groups.

The inclusion of more countries in the BEPS project should reduce some of the risks of inconsistent action. There have been encouraging signs from a number of developing countries or representative groups, such as the African Tax Administration Forum (ATAF). However, the need for particular measures and the possibility of a selective or adapted approach for certain countries have also been raised. Concerns remain regarding the quality and depth of the resources needed to implement changes in some developing countries.

These concerns also reflect the broader issues faced by developing countries in building the necessary capacity to establish and administer effective tax regimes. However, involvement in other projects is helping to address these difficulties including:








- the various training schemes in which the OECD and The International Organisations are working with other donors like the EU; and
- the Tax Inspectors Without Borders (TIWB) initiative on real-time tax audit assistance.

The process of global implementation will take at least the next two years. It seems clear that the commitment a non-OECD country would have to make to participate as an Associate will not require implementation of BEPS minimum standards now but in a timeframe to be agreed.

Additional Information






PwC Points of View

PwC’s views on a number of key proposals and major areas of debate raised by commentators and stakeholders, and possible alternative proposals are available in more detail at: www.pwc.com/regulatory-debate and include:

-  **Independence:** at the heart of who we are
-  **Mandatory firm rotation** – other changes would be better for investors (including new annexes addressing issues specific to banks)
-  **Auditor’s scope of services**
-  **Governance and transparency** of the audit: a critical role for the audit committee
-  **Benefits of scale:** the context and the explanation
-  **Competition and choice** in the audit market
-  **Effective audit committee oversight** of the external auditor and audit: a comprehensive periodic review


PwC EU audit legislation Fact Sheets

PwC has produced a series of ‘Fact Sheets’ on the key measures included in the legislation which are available at: www.pwc.com/regulatory-debate and include:

-  **Mandatory audit firm rotation** for PIEs
-  New requirements for **audit committees** (or their equivalent) relating to their oversight of the performance of the audit
-  Additional **restrictions** on the provision of **non-audit services** by the statutory auditor to their PIE audit clients
-  New requirements regarding **reporting by the statutory auditor**
-  The definition of **Public Interest Entities** (PIEs)

EU audit legislation Briefings

PwC has also produced a Briefing Note on potential, unintended, extra-territorial impacts of the EU audit legislation:

-  Consideration of potential unintended **extraterritorial impacts**

You may also find the material produced by the [European Federation of Accountants \(FEE\)](http://www.fee.be) on the implementation of the EU audit legislation of value.

How to participate in the debates?

The sites referred to in Appendix A provide access to the content of the proposals and initiatives highlighted in this Briefing. Where appropriate they also indicate how to register comment or participate in consultations.

The best way to provide input on implementation of the EU audit legislation is to contact an appropriate official of a member state government or the national audit regulator.

Contacts

If you would like more information on any of the initiatives described in this briefing, please contact your PwC relationship partner.

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